

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----030938 150844Z /11

R 141542Z APR 78  
FM AMEMBASSY CAIRO  
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INFO AMCONSUL ALEXANDRIA

S E C R E T SECTION 01 OF 04 CAIRO 10867

EXDIS

E.O. 11652: GDS  
TAGS: PGOV ECON ECSM EG  
SUBJECT: MINECON COMMENTS ON REPORTED KAINOUNI/TEWFIK  
RESIGNATIONS AND CABINET SITUATION

REF: (A) CAIRO 10622, (B) CAIRO 10523, (C) CAIRO 10322

SUMMARY: MINECON EL SAYEH PROVIDES LENGTHY ACCOUNT OF  
DIFFICULTIES KAISSOUNI AND ECONOMIC MINISTERS HAVE BEEN  
HAVING PAST YEAR AND A HALF IN THEIR EFFORTS REVAMP  
EGYPTIAN ECONOMY. SHARPLY CRITICAL OF PRIMIN SALEM, HE  
CHARGES LATTER HAS BEEN WEAK AND INDECISIVE. SALEM  
GIVES LIP SERVICE TO NEED FOR PRICE RISES, BUT WHEN  
FACED WITH CABINET OR PEOPLES ASSEMBLY OPPOSITION, WAFFLES  
AND SEEKS PIN BLAME ON OTHERS. DISCIPLINE AMONG MISR  
PARTY PA MEMBERS VIRTUALLY NON-EXISTENT. FED UP WITH  
THIS SITUATION AND IN ILL HEALTH, KAISSOUNI HAS RESIGNED,  
BUT HIS RESIGNATION HAS NOT BEEN ACCEPTED. SADAT AND  
SALEM, RECOGNIZING BLOW TO GOE'S INTERNATIONAL FINANCIAL  
IMAGE IF KAISSOUNI LEFT, ARE URGING HIM RECONSIDER.  
ISSUE IN ABEYANCE AS KAISSOUNI IS PREPARING GO TO U.S.  
FOR MEDICAL CHECK-UP. MINSUPPLY/TRADE TEWFIK, ALSO  
TARGET OF PA MEMBERS CRITICAL OF SUPPLY SHORTAGES, IS  
EQUALLY FED UP. ALTHOUGH HE HAS TALKED OF RESIGNING,

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EL SAYEH INSISTS HE HAS NOT DONE SO. TEWFIK HAS SUGGESTED  
HE BE RELIEVED OF MINSUPPLY FUNCTION AND THIS MAY TAKE  
PLACE. EL SAYEH CONFIRMS CABINET IN DISARRAY AND BELIEVES  
ONLY SOLUTION IS EARLY CABINET CHANGE IN WHICH SALEM IS  
REPLACED BY A STRONGER PERSON. HE CLAIMS SALEM SEEKING  
REINGRATIAE HIMSELF WITH SADAT. END SUMMARY.

1. IN LENGTHY TALK WITH MINECON HAMED EL SAYEH, APRIL 13, HE RECOUNTED REASONS FOR CURRENT CABINET DISARRAY AND CLARIFIED REPORTED KAISSOUNI/TEWFIK RESIGNATIONS.

2. EL SAYEH BEGAN BY RECALLING THAT WHEN KAISSOUNI WAS APPOINTED BY SADAT IN NOVEMBER 1976 AS DEPUTY PRIMIN FOR ECONOMIC AFFAIRS, THE PRESIDENT MADE CLEAR THAT KAISSOUNI AND HIS ECONOMIC TEAM WERE TO HAVE A FREE HAND TO REVAMP EGYPT'S AILING ECONOMY. PRIMIN SALEM WAS DECIDEDLY UNHAPPY WITH KAISSOUNI'S SWEEPING MANDATE, SEEING IT AS DEROGATION OF PRIMIN'S AUTHORITY. IN ORDER DILUTE KAISSOUNI'S INFLUENCE, HE FIRST SOUGHT RETAIN FORMER MINECONOMY (ZAKI SHAFEL), DESPITE LATTER'S PROVEN INCOMPETENCE, BUT SADAT INSISTED KAISSOUNI MUST BE ALLOWED CHOOSE HIS OWN TEAM. PRIMIN GRUDGINGLY ACCEPTED, BUT PERIOD IMMEDIATELY AFTER NOVEMBER, 1976, CABINET RESHUFFLE PERSISTENTLY SOUGHT TO MEDDLE IN ECONOMIC AFFAIRS AND KEEP KAISSOUNI AWAY FROM SADAT.

3. FROM OUTSET KAISSOUNI HAD PRESSED HARD FOR PRICE INCREASES AS DEMANDED BY IMF AND IN PROCESS QUICKLY ANTAGONIZED MOST OTHER MINISTERS. THEY HAVE FOUGHT HIM EVER SINCE. SALEM, ACCORDING EL SAYEH, WHILE GIVING LIP SERVICE TO NEED FOR PRICE INCREASE, ALWAYS WAFFLED WHEN IT CAME TO A CRUNCH. FIRST CASE IN POINT WAS WHEN KAISSOUNI RAISED PRICES IN JANUARY, 1977,  
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IN AN EFFORT TO ELIMINATE SOME SUBSIDIES. ON FIRST DAY OF ENSUING RIOTS (JANUARY 18), SADAT ORDERED THAT PRICE INCREASES BE SUSPENDED RPT SUSPENDED UNTIL SITUATION COULD BE BROUGHT UNDER CONTROL. SALEM, HOWEVER, WENT BEYOND THIS. ON HIS OWN, HE RESCINDED ALL PRICE INCREASES AND THEREAFTER SOUGHT OBLIQUELY PLACE BLAME FOR RIOTS ON "ECONOMIC MINISTERS." THIS, EL SAYEH BELIEVES, WAS SALEM'S WAY OF ATTEMPTING HAMSTRINGING KAISSOUNI AND ECONOMIC MINISTERS FROM OUTSET. (EL SAYEH NOTED IN PASSING THAT, ALTHOUGH MINSUPPLY/TRADE ZAKARIA TEWFIK IS ONE OF ECONOMIC MINISTERS, HE HAS NOT SUPPORTED PRICE INCREASES.)

4. SHORTLY AFTER RIOTS, EL SAYEH CONTINUED, SALEM AND SOME OTHER MINISTERS BEGAN TO PRESS FOR WAGE INCREASES IN AN EFFORT TO COURT PUBLIC POPULARITY. KAISSOUNI ARGUED AGAINST SUCH WAGE INCREASES, CONTENDING THEY WOULD UNDERMINE INCIPIENT ECONOMIC REFORM PROGRAM AND WOULD THEMSELVES HAVE AN INFLATIONARY EFFECT. SOME SLIGHT WAGE INCREASES MIGHT AT SOME LATER TIME BE GRANTED, BUT THEY SHOULD NOT BE GIVEN UNTIL AFTER THE ECONOMIC REFORM PROGRAM (AND SPECIFICALLY PRICE RISES)

HAD QUIETLY BEEN PUT INTO EFFECT. SALEM PROFESSED TO AGREE, BUT DID NOTHING TO DAMPEN CONTINUED PRESSURE FROM SOME CABINET MEMBERS AND MISR PARTY FOR WAGE INCREASES AND MAY EVEN HAVE ENCOURAGED THEM. WAGE INCREASES, AS WE KNEW, HAD GONE INTO EFFECT LATE LAST YEAR AND ADDITIONAL WAGE INCREASES FOR THE PRIVATE SECTOR ARE NOW BEING DISCUSSED. THIS ACTION, APART FROM FURTHER COMPLICATING TASK OF ECONOMIC MINISTERS, WAS VIEWED BY KAISSOUNI AS UNWARRANTED ENCROACHMENT ON HIS PRESERVE.

5. KAISSOUNI'S HEALTH HAS FOR MANY YEARS BEEN POOR, EL SAYEH NOTED, AND HIS SUBSEQUENT ASSUMPTION OF THE PLANNING PORTFOLIO (AFTER ABDEL MEGUID'S DEPARTURE) WORE  
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HIM DOWN STILL MORE. KAISSOUNI FOUND A TOTALLY DISORGANIZED PLANNING MINISTRY STAFF. ABDEL MEGUID'S

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ACTION SS-25

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S E C R E T SECTION 02 OF 04 CAIRO 10867

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FIVE-YEAR PLAN, EL SAYEH ACKNOWLEDGED, WAS HASTILY DRAFTED AND MORE SHOWY THAN SUBSTANTIVE. SINCE TAKING OVER THE PLANNING PORTFOLIO, KAISSOUNI (WHO WAS PLANNING MINISTER IN 1968) HAS SOUGHT TO REVISE IT. IN THE PROCESS, HE EARNED HIMSELF ADDITIONAL REPROACHES FROM MANY OF HIS FELLOW CABINET MINISTERS. HERE AGAIN SALEM, WHO KNOWS NOTHING ABOUT PLANNING, FAILED SUPPORT

KAISSOUNI.

6. AS STILL ANOTHER EXAMPLE OF SALEM'S WEAKNESS, EL SAYEH RECALLED MINHEALTH BADRAN'S ACTION DURING PAST YEAR TO RAISE PHARMACEUTICAL PRICES. THIS ACTION HAD BEEN CONSISTENT WITH GOE POLICY DECISION TO RAISE PRICES IN GENERAL AND HAD BEEN APPROVED BY PRIMIN. IT NEVERTHELESS RESULTED IN CONCERTED CAMPAIGN BY SOME CABINET AND PA MEMBERS, INCLUDING NUMEROUS MISR PARTY ADHERENTS, TO SACK BADRAN. SALEM, WHO HAD APPROVED THE DECISION, DID NOTHING TO HELP HIS BELEAGUERED MINHEALTH. ONLY THROUGH THE FORCEFUL INTERVENTION OF KAISOUNNI AND THE ECONOMIC MINISTERS WAS BADRAN SAVED. (SEE 77 CAIRO 10386 FOR BADRAN'S DEFENSE OF HIS ACTION.)

7. LATEST INSTANCE OF SALEM WEAKNESS, EL SAYEH  
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ASSERTED, IS TAX BILL WHICH PA IS IN FINAL STAGES OF ENACTING. SADAT IN HIS REFERENDUM FOLLOWING THE JANUARY 1977 RIOTS HAD PROMISED A NEW TAX BILL WITHIN A MONTH, AND A STRONG BILL HAD INDEED BEEN DRAFTED BY MINFINANCE SALAH HAMED. SALEM, UNFORTUNATELY, ALLOWED DEBATE ON BILL TO RUN FOR ALMOST A YEAR. AS A RESULT, TAX BILL HAS BEEN SO EMASCULATED THAT IT IS VIRTUALLY USELESS. DESIGNED TO ASSURE THAT TAXES ARE PAID, AND THEREBY INCREASE REVENUES, EL SAYEH CHARGED FINAL VERSION WILL PROBABLY MEAN A REDUCTION OF REVENUES. AGAIN, SALEM HAD FAILED TO ASSERT ANY DISCIPLINE OVER HIS PA PARTY MEMBERS.

8. FED UP WITH THIS UNSATISFACTORY SITUATION AND IN ILL HEALTH, KAISSOUNI FEW DAYS BEFORE PA DEBATE ON PRICE RISES, SUBMITTED HIS RESIGNATION. IN DOING SO, HOWEVER, HE INDICATED WILLINGNESS HANDLE DEBATE BEFORE LEAVING OFFICE. AWARE OF WHAT KAISSOUNI'S DEPARTURE WOULD MEAN TO EGYPT'S FINANCIAL IMAGE ABROAD, BOTH SADAT AND SALEM HAVE SOUGHT TO DISSUADE HIM. STORMY PRICE RISE DEBATE, WHICH SALEM MADE NO EFFORT ABATE, COUPLED WITH A "TECHNICAL" DISAGREEMENT WITH GAMASY, ONLY ADDED TO KAISSOUNI'S DEPRESSION AND CONFIRMED HIS DETERMINATION GET OUT. (IN BELIEF THAT KAISSOUNI WOULD INSIST UPON LEAVING THE CABINET, EL SAYEH SAID HE HAD OBTAINED PRESIDENTIAL AGREEMENT THAT KAISSOUNI WOULD IN ANY CASE REMAIN AS A MEMBER OF A NEWLY ESTABLISHED

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EXDIS

NATIONAL ECONOMIC ADVISORY COUNCIL. THIS WOULD AT LEAST MEAN THAT KAISSOUNI'S INTERNATIONAL REPUTATION WOULD STILL BE AVAILABLE TO GOE EVEN IF HE WERE NO LONGER SERVING AS A CABINET MEMBER.) SITUATION NOW IS THAT KAISSOUNI RESIGNATION HAS NOT RPT NOT BEEN ACCEPTED. NOR HAS IT BEEN WITHDRAWN, ALTHOUGH KAISSOUNI IS NOT AT THE MOMENT PRESSING IT. KAISSOUNI'S HEALTH IS BAD, HE HAS NOT BEEN IN OFFICE FOR ALMOST TWO WEEKS, AND HE EXPECTS TO LEAVE FOR THE U.S. THIS COMING WEEKEND FOR MEDICAL CHECK-UP. THIS LEAVES ISSUE OF WHETHER OR NOT KAISSOUNI WILL REMAIN IN THE CABINET IN ABEYANCE UNTIL HIS RETURN. BY THAT TIME, EL SAYEH HOPES, KAISSOUNI WILL HAVE RECONSIDERED. (EL SAYEH INDICATED THAT IF KAISSOUNI WERE TO LEAVE, HE TOO WOULD RESIGN.)

9. EL SAYEH DENIED THAT MINSUPPLY/TRADE ZAKARIA TEWFIK HAS RESIGNED (TEWFIK WAS AT HIS OFFICE APRIL 13). TEWF HE EXPLAINED, HAS LIKEWISE BORNE THE BRUNT OF SELF-SERVING PA MEMBERS' ATTACKS AND IS FED UP. HE HAS FREQUENTLY THREATENED TO RESIGN, BUT EL SAYEH CATEGORICALLY DENIED THAT TEWFIK HAD SUBMITTED ANY FORMAL RESIGNATION. EL SAYEH THOUGHT, HOWEVER, THAT TEWFIK WILL PROBABLY SOON BE RELIEVED, AT HIS REQUEST, OF HIS MINSUPPLY FUNCTION AND RETAIN ONLY MINTRADE PORTFOLIO.

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NEW MINSUPPLY, HE SPECULATED, WILL PROBABLY BE DR. MOHAMED IBRAHIM DAKROURI, MEMBER OF THE MISR PARTY AND CHAIRMAN OF THE PA ECONOMIC COMMITTEE.

10. EL SAYEH CONFIRMED THAT THE CABINET IS IN DISARRAY. THE ONLY SOLUTION HE COULD SEE IS AN EARLY CABINET CHANGE IN WHICH SALEM IS REPLACED BY A STRONGER PERSON. WITHOUT THIS, IN EL SAYEH'S VIEW, THE SITUATION WILL BECOME WORSE. HE HAD HEARD RUMORS THAT CABINET CHANGE MIGHT BE IMMINENT, BUT NOTED SALEM IS CURRENTLY WITH SADAT IN ASWAN AND RED SEA AREA SEEKING RE-INGRATIATE HIMSELF WITH PRESIDENT.

11. COMMENT: EL SAYEH'S ACCOUNT IS, OF COURSE, JUST ONE SIDE OF THE STORY. MUCH OF WHAT HE RELATES HAS PREVIOUSLY BEEN REPORTED AND FITS INTO WHAT WE HAVE HEARD FROM OTHER SOURCES. KAISSOUNI AND HIS ECONOMIC GROUP, WHAT-EVER THEIR SHORTCOMINGS, HAVE HAD UPHILL FIGHT IN CABINET AND PEOPLES ASSEMBLY. PRIMIN SALEM HAS BEEN WEAK, INDECISIVE AND AMBIVALENT. HIS LEADERSHIP IN CABINET AND MISR PARTY HAS BEEN POOR. SADAT IS SAID TO HAVE RELUCTANTLY COME AROUND TO THIS VIEW AND TO BE LOOKING FOR A REPLACEMENT. BUT SALEM WANTS TO RETAIN THE JOB AND HIS STRONG SUIT CONTINUES TO BE HIS ALLEGED KNOWLEDGE OF INTERNAL SECURITY PROBLEMS. SADAT'S DILEMMA IS THAT, IN

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PRESENT UNSETTLED SITUATION, HE NEEDS SOMEONE WHOM HE CAN TRUST AND WHO IS ALSO STRONG. SUITABLE CANDIDATES ARE FEW. IN CIRCUMSTANCES, UNLESS HE FINDS SUITABLE CABINET, SADAT MAY SIMPLY DECIDE TO LET WELL ENOUGH ALONE AND CONTENT HIMSELF WITH MINOR CABINET RESHUFFLE. FROM WHAT WE GATHER, HE IS STILL TRYING TO MAKE UP HIS MIND. EILTS

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## Message Attributes

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